January 26, 2007

Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, Vermont 05620

Re: Comments on Board Order regarding Energy Efficiency Charge Exemption Mechanism dated January 8, 2007

Dear Mrs. Hudson:

On January 8, 2007, the Public Service Board issued an order concerning an Energy Efficiency Charge ("EEC") exemption mechanism. The order invited participants to comment on the Board's proposed formula for defining "extraordinary costs" and a preference that EEC exemptions be established on a calendar year basis, even if it requires statutory modifications. By this letter, the Department provides comments on these two issues.

Extraordinary costs

The Board's proposal that extraordinary costs be set at a minimum dollar threshold of five times a customer's annual EEC payments and at least $300 should be reconsidered.[1] Both the proposed minimum annual EEC payment threshold and the total energy efficiency project costs should be increased to reflect a more extraordinary amount.

DPS respectfully submits that, as a factual matter, the threshold proposed by the Board does not meet the statutory requirement that the costs expended on energy efficiency be "extraordinary." On its face, $1,500 is not an amount far beyond what is usual, normal, or customary, especially for electric ratepayers using the amount of energy necessary to generate an annual $300 EEC payment for 2007. A residential customer must use 60,500 kWh a year to create a $300 EEC, a commercial customer an estimated

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[1] The Department interprets the $300 dollar threshold proposed by the Board on page 10 of the order as an annual EEC amount and not an amount that represents five times a customer's annual EEC payment.

73,500 kWh, and an industrial customer over 102,000 kWh annually.[2] Even 10 times the annual charge of at least $300 isn't particularly extraordinary for customers at this usage level.

Footnote 14 of the Board's order supports the Department's view. In that footnote, the Board cites its analysis of 412 C&I customers who installed measures in EVT's 2005 initiatives. The analysis suggests that 43% of EVT C&I participants implemented measures costing at least five times the customers' estimated EEC payment. In addition, 24% of EVT C&I participants implemented measures costing at least 10 times their EEC payment. On average, these participants paid about 70% of these costs, with EVT incentives covering about 30%. Given these historical figures, the Board's proposed threshold of five times that payment – or even a threshold of 10 times that payment – is not extraordinary.

Data from Efficiency Vermont's 2005 annual report shows the average participant cost for measures installed in the Business Energy Services was over $10,000, representing about 71% of the total measure costs.[3] Participants installing industrial process efficiency measures spent an average of nearly $63,000 for measures whose total cost was an average $80,200. These average amounts may not accurately reflect the "average" participants experience, but do give an indication of the amounts currently being spent. Defining an extraordinary amount for purposes of an EEC exemption qualification should reflect this experience. This suggests the threshold should, at a minimum, be at least 10 times the amount of the annual EEC payment and the EEC payment be at least $1,000 annually. The DPS will offer a specific recommendation on this after some additional analysis and provide it to the Board by February 6, 2007. While the effect of a much higher eligibility requirement will limit the number of Vermont electric consumers who could qualify, it is appropriate given the probable administrative costs that will be involved in the process of determining, granting, and implementing requested exemptions.

Finally, it is important to keep in mind that the economics of the proposed exemption generally are not attractive to consumers compared to the financial and technical assistance afforded these customers through the EEU initiatives. There remains

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[2] As BED customers have a lower EEC, the threshold use is higher. The 2007 BED EEC of $300 equates to about 95,000 kWh for residential, 92,000 kWh for commercial, and 112,000 kWh for industrial customers.

[3] Seven hundred eighty (780) participants with installations spent a total of $8.055,465 for measures costing a total of $11,287,161. Efficiency Vermont incentives paid totaled $3,231,696. *Efficiency Vermont 2005 Annual Report* dated August 21, 2006, pages 25 and 26.

considerable concern that the design, development, and implementation of this process will prove costly, in terms of EEU, electric distribution utility, DPS, and PSB time commitment and resources, without a demonstrated benefit. Lacking concrete examples of how the EEC exemption will be advantageous to electric consumers, the Department continues to recommend the Legislature revisit this legislation.

Exemptions on calendar year basis

The Board order puts forth a preliminary conclusion that any EEC exemptions should be established on a calendar-year basis, even if that requires statutory modifications, and on page 15, seeks responses to three issues, as follows:

- Should EEC exemptions be established on a calendar-year basis?
- What are the operation issues associated with establishing EEC exemptions on other than a calendar-year basis?
- Should the legislature be asked to modify the statutory language to allow sufficient time for customers to prepare and submit applications, and for appropriate review of those applications, prior to the calculation of EEC rates for the following calendar year?

The determination of an EEC exemption eligibility should be based on EEC payments and energy efficiency investments expenditures over the same period. As the EEC is typically set for electric use over a calendar year, and EVT and BED report activities and expenditures over a calendar year, an EEC exemption should be based on a calendar year. Whether the eligible EEC payments should be for bills rendered February to February or for the actual calendar year payments is a detail to be worked out in the establishment of the qualification process.

The Department does not believe statutory modification is needed for the Board to establish the EEC exemption on a calendar year basis. The phrase “during the preceding year” contained in the last sentence of 30 V.S.A. § 209(d) should be read to mean the year preceding the Board’s authorization of the exemption, rather than the year preceding the year in which the customer is exempt.

As noted above, the Department will make a specific recommendation for a formula to determine “extraordinary costs” to the Board on February 6, 2007. The opportunity to further analyze this prior to making a proposal is greatly appreciated.

Sincerely,

Robert Ide, Director for Energy Efficiency